

whether more “Enrons” will surface in the near future. If they do, market participants will pull away from equity markets and high yield bonds, because new doubts will be raised about the quality of earnings and the accuracy of other reported financial information.

But already we can see other repercussions from Enron's fall quite clearly. In the securities industry, merger activity has slowed and—by the standards of recent years—will remain at a low volume for the foreseeable future. No conglomerate that is on the brink of going below a credit rating of “below investment grade” will be able to gain ready access to funds for sometime to come. And while initial public offerings of stock are trickling into the market again, I think we have seen the end of the kind of huge speculative offerings that have been fairly common in recent years. Meanwhile, financial institutions, with lower near-term profit margins, will be encouraged to shed more overhead. Research analysts will be particularly vulnerable if institutions cannot use them to help market new issues and trading positions.

For business corporations, financing costs are rising. This began last year when corporations issued a huge volume of bonds and reduced short-term debt, mainly outstanding commercial paper. In doing so, they paid off lower-cost debt and increased higher-cost debt. The financial problems of Enron and of a handful of other companies late last year has inspired commercial paper investors to become more discerning, thereby forcing corporate issuers to activate bank lines or new bond issuance to pay off maturing paper. The paper market is now virtually closed to all issuers below the top credit rating.

The liquidation of outstanding commercial paper held by nonfinancial corporations has

taken place on an unprecedented scale (see Figure 2). Since 2000, it has declined by \$175 billion, or a remarkable 49%. This trend has reduced commercial paper to levels that were outstanding in 1997. Moreover, this \$175 billion shift in borrowing probably has boosted corporate financing costs by anywhere from \$6 billion to \$8 billion. Financing costs probably also will rise, as banks raise their fees for back-up lines of credit, although these lines have an uncertain value. On the one hand, they do provide liquidity for the corporate issuer of paper when investors want their money. On the other hand, the runoff of paper tends to accelerate when market participants become aware of the utilization of the bank line.

While creditors generally will increase their alertness to corporate credit quality as a result of Enron, credit rating agencies surely will intensify the scope of their work and the speed of their responsiveness to changing corporate credit conditions. Already, we hear of the likely issuance of corporate liquidity ratings by the ratings agencies. This closer scrutiny will occur on top of another year in which more corporate credit ratings will be lowered rather than raised.

Yet another likely outcome from the Enron Episode is improved accounting standards. This will lower reported corporate profits in the short term, but the more conservative profit data will enhance investor confidence in the long run. Let us also hope that there may be an effort to put some of the off-balance-sheet financing onto the balance sheet. If so, the corporate debt data that I spoke about earlier will look worse—but again, the long-term effect for investors will be positive.

Incidentally, two other costs not related to financing costs are likely to rise as a consequence of Enron's travails. These are audit

fees and the cost of liability insurance for directors and officers.

Of course, all of these costs could be more than offset through a sharp increase in corporate profits. I suspect that this is unlikely. Business does not have pricing power. Excess capacity is high here and around the world. Unfortunately, Enron unraveled at a time when the general financial condition of nonfinancial corporations was probably the worst—for the end of a recession and the start of a new economic recovery—for the entire post-World War II period. From 1995 to 2001, the equity position (retained earnings plus new issuance or minus retirement of stock) of nonfinancial corporations has contracted by \$423 billion, while net debt has increased by \$2.3 trillion in the same period. Indeed, this exceeded the debt-leveraging binge in the 1984–90 period when net equity contracted by \$457 billion and debt rose by \$1.3 trillion. Due to time constraint, the chart can't be printed in the RECORD. (See table.)

The combination of the cyclically weak financial position of corporations, moderate profit recovery, and closer scrutiny of corporate activity by management, auditors, creditors, rating agencies, and officially supervisory agencies will—in the near term—inhibit corporate activity, especially capital expenditures. Thus, once the current inventory restocking ends a few months from now, the economic recovery will moderate significantly.

In short, there are likely to be some difficult adjustments in the near-term horizon, several of them a direct result of Enron's wayward ways. But all would be a modest price to pay for a return to more reasonable and responsible conduct in business and financial markets.

FIGURE 3.—NET CHANGE IN EQUITY BOOK VALUE AND IN DEBT U.S. NONFARM NONFINANCIAL CORPORATE BUSINESS, 1982–2001

(In billions of dollars)

	1982–83	1984–90	1991–94	1995–99	2000	2001
Pre-Tax Profits .....	\$291.4	\$1,446.1	\$1,163.5	\$2,303.8	\$502.2	\$379.3
Less:						
Taxes .....	105.6	606.7	409.0	768.4	186.0	141.8
Dividends .....	116.9	589.3	565.0	1,074.8	267.3	302.7
Plus:						
IVA .....	(19.1)	(66.3)	(14.5)	8.8	(12.4)	4.4
Net New Equity .....	21.9	(640.7)	21.7	(652.7)	(159.7)	(55.7)
Net Change In Equity .....	71.7	456.9	196.7	(183.3)	(123.2)	(116.5)
Net Increase In Debt .....	186.1	1,274.1	129.9	1,547.6	429.1	267.9

Source: Federal Reserve Board, Flow of Funds. •

#### IN RECOGNITION OF THE VALOR, DEDICATION, AND PATRIOTISM OF THE KERR FAMILY VETERANS

• Mr. LEVIN. Mr. President, this week-end communities will gather to pay tribute to the men and women who lost their lives while in service to our Nation. Throughout America, parades will be held on Memorial Day which will honor the soldiers, sailors, airmen and Marines who have served to protect our Nation and preserve our freedoms. The City of Royal Oak, in my home State of Michigan will be hosting its annual Memorial Day parade on Monday, May 27, 2002, and this year four brothers from the Kerr family, who are all Vietnam veterans will serve as the Grand Marshals of this parade. These four brothers all voluntarily joined the U.S. military, and went to Vietnam to bravely serve in our nation's armed services. These brothers have proudly

carried the “Warrior” American flag in the Royal Oak parade in past years to honor their tribe, the Chippewa Tribe of Sault Sainte Marie, and to honor all of the American heroes who fought so fearlessly and valiantly in past conflicts to preserve our liberty and democratic values.

John Kerr, U.S. Marine Corps, Tom Kerr, U.S. Air Force, and Harvey Kerr, U.S. Navy, served in Vietnam simultaneously. Upon their safe return, a fourth brother, Michael Kerr, U.S. Army, voluntarily served in Vietnam and returned safely. These brothers reportedly owe their courage to their beloved mother, Rena Kerr, whose strength and conviction moved her to persevere beyond her personal challenges as a young widow and mother of nine children, to serve the needs of her fellow Americans. She was a devoted civil rights activist and committed herself to helping others. She taught

her seven sons and two daughters to highly value their priceless freedoms and the proud Chippewa heritage of their late father, Ted Kerr. With so great a legacy, four Kerr sons were impressed to respond courageously and patriotically to the wartime call, and chose to stand and valiantly serve their country in the Vietnam War. Tom Kerr, who bravely flew a State Flag of Michigan in a F-4 on a combat mission over North Vietnam, was honored to present that flag after his return to Governor William Milliken in 1968.

The Kerr brothers have made it a tradition to annually salute America's fallen heroes of past conflicts and wars on the national day of observance. They proudly carry the flag to honor those who gave the ultimate sacrifice in service to our country, and to join with their many families and friends to honor their memory. The Kerr brothers

march as an expression of reverence for those who fought along side them in Vietnam, but did not return. And the Kerr brothers have called our attention to the importance of cherishing our great freedom that has come through the "blood of heroes."

The Kerr brothers can be proud of their dedication to their country, and their great commitment to honor the values of their family and the principles of democracy and freedom. We as a nation have benefitted from the sacrifices, extraordinary contributions and example of these four brothers who bravely went off to war after having lost their father. I know that my Senate colleagues join me and the Royal Oak Parade Council in paying tribute to the Kerr brothers for their service in our nation's armed forces and their great bravery and valor as Vietnam veterans.●

#### MESSAGES FROM THE PRESIDENT

Messages from the President of the United States were communicated to the Senate by Ms. Evans, one of his secretaries.

#### EXECUTIVE MESSAGES REFERRED

As in executive session the Presiding Officer laid before the Senate messages from the President of the United States submitting sundry nominations which were referred to the Committee on the Judiciary.

(The nominations received today are printed at the end of the Senate proceedings.)

#### MESSAGE FROM THE HOUSE

At 3:01 p.m., a message from the House of Representatives, delivered by Ms. Niland, one of its reading clerks, announced that it has passed the following bills, in which it requests the concurrence of the Senate:

H.R. 3253. An act to amend title 38, United States Code, to provide for the establishment within the Department of Veterans Affairs of improved emergency medical preparedness, research, and education programs to combat terrorism, and for other purposes.

H.R. 4608. An act to name the Department of Veterans Affairs Medical and Regional Office Center in Wichita, Kansas, as the "Robert J. Dole Department of Veterans Affairs Medical and Regional Center."

The message also announced that the House has agreed to the following concurrent resolutions, in which it requests the concurrence of the Senate:

H. Con. Res. 165. Concurrent resolution expressing the sense of the Congress that continual research and education into the cause and cure of fibroid tumors be addressed.

H. Con. Res. 309. Concurrent resolution recognizing the importance of good cervical health and of detecting cervical cancer during its earliest stages.

H. Con. Res. 314. Concurrent resolution recognizing the members of AMVETS for their service to the Nation and supporting the goal of AMVETS National Charter Day.

The message further announced that pursuant to 22 U.S.C. 276h, notwith-

standing the provisions of that section regarding the Chairmanship, and clause 10 of rule I, the Speaker appoints the following Members of the House of Representatives to the Mexico-United States Interparliamentary Group: Mr. KOLBE of Arizona, Chairman, Mr. DREIER of California, Mr. STENHOLM of Texas, Mr. BARTON of Texas, Mr. DOOLEY of California, Mr. PASTOR of Arizona, Mr. FILNER of California, Ms. ROYBAL-ALLARD of California, Mr. CANNON of Utah, Mr. REYES of Texas, Mr. TANCREDO of Colorado, and Mr. UDALL of New Mexico.

The message also announced that pursuant to 22 U.S.C. 276d and clause 10 of rule I, the Speaker appoints the following Members of the House of Representatives to the Canada-United States Interparliamentary Group: Mr. HOUGHTON of New York, Chairman, Mr. GILMAN of New York, Mr. LAFALCE of New York, Mr. SHAW of Florida, Mr. LIPINSKI of Illinois, Ms. SLAUGHTER of New York, Mr. STEARNS of Florida, Mr. MANZULLO of Illinois, Mr. DAN MILLER of Florida, Mr. SOUDER of Indiana, and Mr. ENGLISH of Pennsylvania.

#### MEASURES REFERRED

The following bill was read the first and the second times by unanimous consent, and referred as indicated:

H.R. 3253. An act to amend title 38, United States Code, to provide for the establishment within the Department of Veterans Affairs of improved emergency medical preparedness, research, and education programs to combat terrorism, and for other purposes; to the Committee on Veterans' Affairs.

The following concurrent resolutions were read, and referred as indicated:

H. Con. Res. 165. Concurrent resolution expressing the sense of the Congress that continual research and education into the cause and cure for fibroid tumors be addressed; to the Committee on Health, Education, Labor, and Pensions.

H. Con. Res. 309. Concurrent resolution recognizing the importance of good cervical health and of detecting cervical cancer during its earliest stages; to the Committee on Health, Education, Labor, and Pensions.

H. Con. Res. 314. Concurrent resolution recognizing the members of AMVETS for their service to the Nation and supporting the goal of AMVETS National Charter Day; to the Committee on the Judiciary.

#### EXECUTIVE AND OTHER COMMUNICATIONS

The following communications were laid before the Senate, together with accompanying papers, reports, and documents, which were referred as indicated:

EC-7164. A communication from the Assistant Secretary, Legislative Affairs, Department of State, transmitting, pursuant to the law, a report relative to a Determination and Certification under Section 40A of the Arms Export Control Act; to the Committee on Foreign Relations.

EC-7165. A communication from the Comptroller General of the United States, transmitting, pursuant to law, the report of the list of General Accounting Office reports for

January 2002; to the Committee on Governmental Affairs.

EC-7166. A communication from the Director of the Office of Management and Budget, Executive Office of the President, transmitting, the OMB Cost Estimate for Pay-As-You-Go Calculations for report numbers 575 and 576; to the Committee on the Budget.

EC-7167. A communication from the Vice Chairman of the Export-Import Bank of the United States, transmitting, pursuant to law, a report relative to a transaction involving U.S. exports to the Republic of Korea; to the Committee on Banking, Housing, and Urban Affairs.

EC-7168. A communication from the Secretary of Veterans' Affairs, transmitting, a draft of proposed legislation entitled "Veterans' Employment, Business Opportunity, and Training Act of 2002; to the Committee on Veterans' Affairs.

EC-7169. A communication from the Assistant Secretary of Indian Affairs, Department of the Interior, transmitting, pursuant to law, a report relative to the Hoopa-Yurok Settlement Act; to the Committee on Indian Affairs.

EC-7170. A communication from the Chief of the Regulations Unit, Internal Revenue Service, Department of the Treasury, transmitting, pursuant to law, the report of a rule entitled "Changes in Accounting Periods" ((RIN1545-AX15)(TD8996)) received on May 16, 2002; to the Committee on Finance.

EC-7171. A communication from the Chief of the Regulations Unit, Internal Revenue Service, Department of the Treasury, transmitting, pursuant to law, the report of a rule "Ridge and Marjory Harlan v. Commissioner" received on May 17, 2002; to the Committee on Finance.

EC-7172. A communication from the Chief of the Regulations Unit, Internal Revenue Service, Department of the Treasury, transmitting, pursuant to law, the report of a rule entitled "Extension of the Remedial Amendment Period" (Rev. Proc. 2001-55) received on May 17, 2002; to the Committee on Finance.

EC-7173. A communication from the Chief of the Regulations Unit, Internal Revenue Service, Department of the Treasury, transmitting, pursuant to law, the report of a rule entitled "Valuation of Option for Golden Parachute Payment" (Rev. Proc. 2002-13) received on May 17, 2002; to the Committee on Finance.

EC-7174. A communication from the Chairman, Federal Election Commission, transmitting, pursuant to law, the report of a rule entitled "Revision of Reporting Forms Implementing FEC Rule Transmitted on March 15, 2002" received on May 9, 2002; to the Committee on Rules and Administration.

EC-7175. A communication from the Chairman of the Federal Election Commission, transmitting, pursuant to law, twenty-three recommendations for legislative action; to the Committee on Rules and Administration.

EC-7176. A communication from the Principal Deputy Associate Administrator of the Environmental Protection Agency, transmitting, pursuant to law, the report of a rule entitled "Nicotine; Tolerance Revocations" (FRL6836-7) received on May 16, 2002; to the Committee on Agriculture, Nutrition, and Forestry.

EC-7177. A communication from the Chief, Forest Service, Department of Agriculture, transmitting, pursuant to law, the report of a rule entitled "National Forest System Land and Resource Management Planning; Extension of Compliance Deadline; Interim Final Rule" (RIN0596-AB87) received on May 17, 2002; to the Committee on Agriculture, Nutrition, and Forestry.

EC-7178. A communication from the Congressional Review Coordinator, Animal and Plant Health Inspection Service, Department